MILLER CANFIELD

Using Industrial Development Revenue Bond Financing Techniques as a Tool for Business Expansion

TAX-EXEMPT
INDUSTRIAL DEVELOPMENT REVENUE BONDS

OVERVIEW

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1. *WHAT IS AN INDUSTRIAL DEVELOPMENT REVENUE BOND ("IDRB")?*

- A Security issued by a State or Local Governmental Agency

  ⇒ An IDRB is a Bond / Security which is authorized and issued by a state or local governmental agency. The Bonds are sold through an underwriter to investors, the proceeds of which are then loaned to the Company.

  ⇒ All Projects to be financed with IDRB Bonds must first be approved ("Induced") by the state or local development authority (i.e., the issuer) prior to commencing with the Project. Most counties and cities/townships have their own local Economic Development Corporation (EDC), however, the majority of bonds are still issued at the state level.

- Issued on a Tax-Exempt basis under the Internal Revenue Code

  ⇒ An IDRB is issued on a TAX-EXEMPT basis to the investors. The primary advantage of financing a Project with IDRB's is that the interest income earned by the bond investor is excluded from federal, state and, in certain situations, local income taxes. For this reason, investors are willing to accept a rate of interest on the bonds that is substantially lower than traditional bank financing with the end result being reduced interest costs to the borrower.

2. *WHAT PROJECTS ARE ELIGIBLE FOR IDRB FINANCING?*

- Manufacturing Companies

  ⇒ The major qualification for the use of tax-exempt bonds is that a project must be classified as manufacturing. Manufacturing is defined as a facility which is used in the manufacturing or production of tangible personal property and which alters, adds value to and/or entails a process resulting in the change in condition of a raw material. Projects such as warehouses, office complexes, service companies and distribution centers do not qualify as tax-exempt facilities.

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3. ***WHAT CAN BE FINANCED?***

- Land Acquisition
  - ⇒ Up to 25% of the Bond proceeds may be used to acquire raw land for new facility construction.
- New Manufacturing Facility Construction
- Construction of a New Addition to an Existing Manufacturing Facility
- Purchase of an Existing Facilities
  - ⇒ Bond proceeds may be used to acquire an existing facility only if an amount equal to 15% of the building cost financed with Bond proceeds (separate and apart from land costs, and equipment purchases) is used for refurbishing, renovating or improving the existing facility. An addition to the existing facility being purchased is not considered renovation.
- New Machinery and Equipment
  - ⇒ Used equipment is usually NOT able to be financed with bond proceeds, however, the rehabilitation expenses, i.e., new parts and labor associated with refurbishing a used piece of equipment, may be financed under certain circumstances.
- Issuance Costs
  - ⇒ Up to 2% of the bond proceeds may be used to pay costs of issuance.
  - ⇒ Up to 3% of the bond proceeds may be used to pay the costs incurred with the transfer of risk (i.e. the Letter of Credit). This can include the first year letter of credit fee and up-front commitment fee.

4. *WHAT ARE THE DOLLAR LIMITATIONS?*

- Minimum Amount - Approx. \$1.3 - \$1.5 Million
  - ⇒ At smaller dollar amounts, the costs savings associated with an IDRB Bond may not be significant and may not be incentive enough for a company to go through the longer, more complex IDRB process.
- Maximum Amount - \$10 Million
  - ⇒ The maximum amount of Bond Proceeds that can be used to finance a Project is \$10 MM. The maximum Project size cannot exceed \$20 million due to the \$20 million capital expenditure limitation.

5. *WHAT ARE THE TAX RESTRICTIONS?*

- Capital Expenditure Limitation
  - ⇒ \$20 million maximum limitation on all capitalized expenditures of the Company within the boundaries of the specific incorporated municipality of the project.
  - ⇒ Includes related parties, test-period beneficiaries and lessees beneficially using more than 10% of the bond proceeds.
  - ⇒ Calculated over a 6-year window -- 3 years back and 3 years forward from the bond issuance date.
    - ❖ For bond issues over \$1,000,000, the capital expenditures of the company, any principal users (e.g., lessees) of the project facility, and any related parties (i.e., same principals own other separate entities within the same municipality) made in the municipality in which the bond proceeds are spent may not exceed \$20,000,000 (including the bond issue proceeds) during the six year period commencing three years prior to the issuance of the bonds and ending three years thereafter. The principal amount outstanding of prior Bond issues will count against the limit regardless of when issued.

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5. ***WHAT ARE THE TAX RESTRICTIONS? (Continued)***

    ⇒ "Tooling" that is owned by a customer of the Company and used within the Project site will usually be considered a capital expenditure of the company.

- 95% of Bond Proceeds must be spent for land and/or depreciable property
- No more than 25% of Bond Proceeds can be used for the acquisition of land
- Land that is considered "excessive" to the needs of the facility or the company cannot be financed with the proceeds of a bond issue.
- At least 70% of the Bond Proceeds must be spent for assets or floor space deemed "Core" manufacturing
- No more than 2% of Bond Proceeds may be used to pay or offset issuance costs
- No more than 3% of Bond Proceeds may be used to fund expenditures incurred prior to inducement and/or Letter of Credit related expenses.
- Machinery and Equipment typically depreciated on a straight line basis.
- All Projects must receive an Inducement Resolution

    ⇒ Any costs incurred prior to 60 days prior to the adoption of an inducement resolution by an issuer will not qualify for reimbursement from the bond proceeds. Costs or expenses incurred after an inducement has been received will qualify for reimbursement provided such costs are related to the manufacturing project. An inducement is typically good for up to two years.

- All Bonds must receive Allocation from the State Unified Volume Cap

    ⇒ Each issuance of bonds must receive allocation from the state. The application process and procedures vary from state to state; however, each state is limited by federal law as to the total amount of private purpose bonds (which include small issue IRB's Bonds) which can be issued during any calendar year.

6. ***WHAT IS THE PROCESS?***

- Complete and Submit Inducement Application
  - ⇒ State Agency
  - ⇒ Local Agency
    - ❖ Local Economic Development Corporations ("EDC's")
    - ❖ Prevailing Wage requirement
- Begin Approval process for a Bank Letter of Credit to support the Bond issue
- Begin required environmental study, appraisal, survey etc... as needed or required by the Bank
- Negotiate Bond and Bank documentation
- Obtain Bond Authorizing Resolution adopted by Issuer
- Receive Allocation from the State
  - ⇒ Once allocation has been received, bonds can then be issued to finance your Companies project. Since the dollar amount allocated to small issue IRB Bonds is finite, allocation towards the end of a given calendar year may get very tight or even completely depleted.
- Sell Bonds / Close Transaction
  - ⇒ The time it takes to move through the process varies dramatically. The average time to fund a bond issue is typically 3 months, however, transactions have been done in as little as 2 month and as long as 3 years due to Project delays.

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7. *WHY USE AN IDRB TO FUND A CAPITAL EXPANSION PROJECT?*

- Substantially lower borrowing cost even though there are significant up-front costs:

Tax-Exempt Bond Issue

	Curr.	10 yr. Ave.
Coupon Rate	3.65%	2.84%
Letter of Credit Fee:	1.25%	1.25%
Remarketing Fee:	0.13%	0.13%
Trustee Fee:	0.03%	0.03%
Capital Cost:	5.06%	4.25%
Issuance Costs:	0.11%	0.11%
Total Cost:	5.17%	4.36%

Conventional Bank Loan

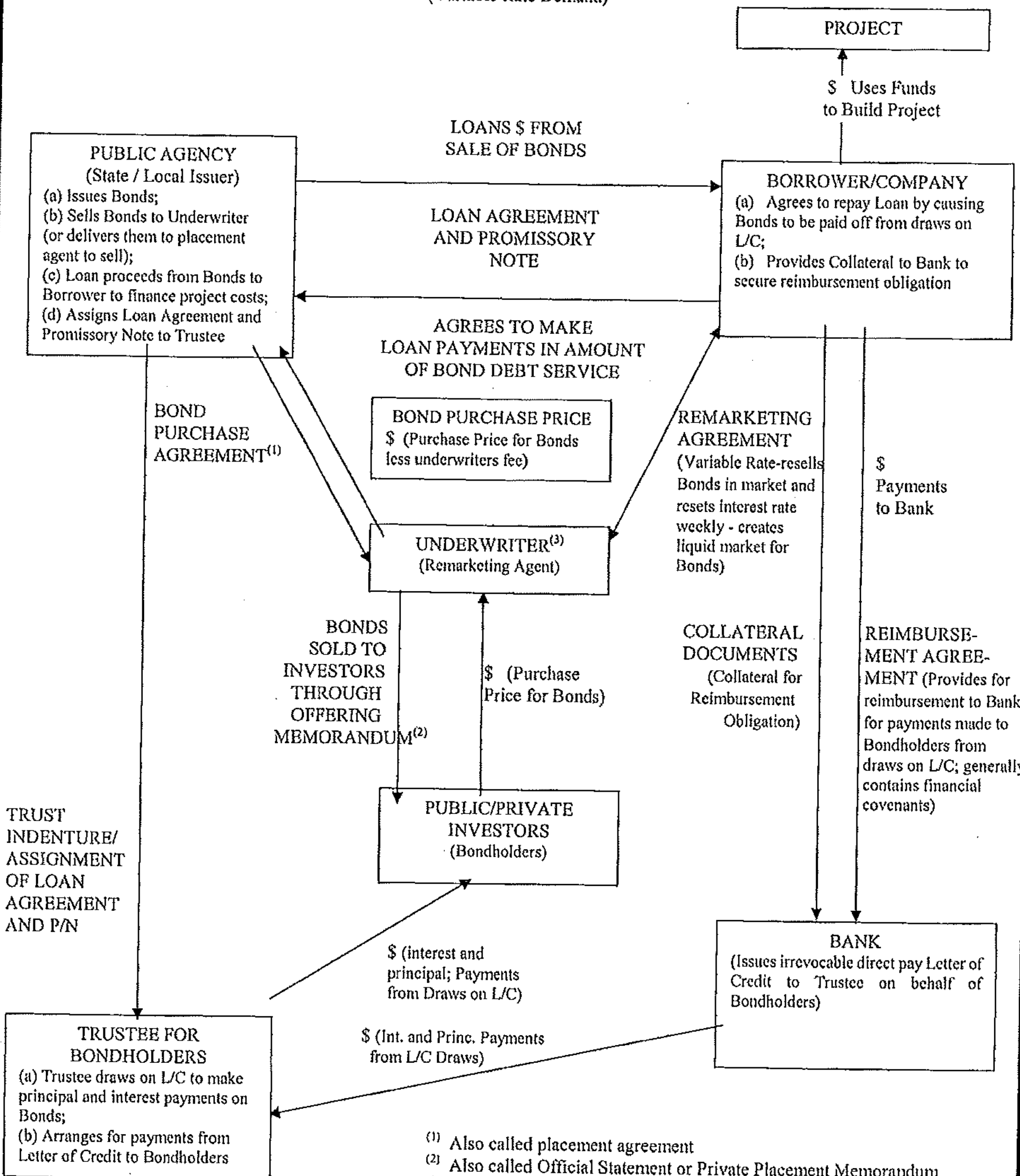
	Curr.	10 yr. Ave.
Prime Rate:	7.75%	6.82%
Spread	0.00%	0.00%
Capital Cost:	7.75%	6.82%
Issuance Costs:	0.03%	0.03%
Total Cost:	7.78%	6.85%

Note: The market rate for the Letter of Credit Fee varies considerably based on bank and credit considerations. The Bank will determine the L.O.C. Fee.

- Substantial Present Value savings. Sometimes as much as 10 - 15% of the original principal borrowed on a present value basis including the effect of all the costs of issuance.

INDUSTRIAL DEVELOPMENT REVENUE BOND FINANCING STRUCTURE

(Variable Rate Demand)



(1) Also called placement agreement

(2) Also called Official Statement or Private Placement Memorandum

(3) Also called Placement Agent also acts as Remarketing Agent

TAX-EXEMPT
QUALIFIED 501(c)(3) BONDS

OVERVIEW

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1. *WHAT ARE TAX-EXEMPT QUALIFIED 501(c)(3) BONDS?*

- A Security issued by a State or Local Governmental Agency

  ⇒ A qualified 501(c)(3) bond is a Bond / Security which is Induced, Authorized and Issued by a state or local governmental agency. The Bonds are sold through an underwriter to investors, the proceeds of which are then loaned to the non-profit 501(c)(3) organization.

  ⇒ All Projects to be financed with qualified 501(c)(3) bonds must first receive a declaration of Official Intent provided through either a Board Resolution adopted by the 501(c)(3) organization, or through approval of an Inducement Resolution approved by the state or local development authority (i.e., the issuer) prior to commencing with the Project. In all cases, an Inducement Resolution by the state or local development authority must be adopted. Most counties and cities/townships have their own local Economic Development Corporation (EDC); however, the majority of bonds are still issued at the state level.

- Issued on a Tax-Exempt basis under the Internal Revenue Code

  ⇒ A qualified 501(c)(3) bond is issued on a TAX-EXEMPT basis to the investors. The primary advantage of financing a Project with qualified 501(c)(3) bonds is that the interest income earned by the bond investor is excluded from federal, state and, in certain situations, local income taxes. Further, in the vast majority of cases, interest earned on 501(c)(3) Bonds is not an item of tax preference for purposes of the federal alternative tax imposed on individuals and corporation. For this reason, investors are willing to accept a rate of interest on the bonds that is substantially lower than traditional bank financing with the end result being reduced interest costs to the borrower.

TAX-EXEMPT
QUALIFIED 501(c)(3) BONDS

OVERVIEW

2. *WHAT PROJECTS ARE ELIGIBLE FOR BOND FINANCING?*

- Non-Profit 501(c)(3) Corporations
  - ⇒ The major qualification for the use of this form of tax-exempt bonds is that the organization that will benefit from the bond issuance has been granted an exemption from paying federal income tax by the Internal Revenue Service because the organizations purposes or activities are described in Section 501(c)(3) of the internal Revenue Code of 1986, as amended (including religious, charitable, scientific, testing for public safety, literary or educational purposes). In all cases, a copy of the determination letter from the Internal Revenue Service regarding the borrower's 501(c)(3) status must be provided for review and approval.

3. *WHAT CAN BE FINANCED?*

- Land Acquisition
  - ⇒ No dollar limitation on bond proceeds used to acquire land, however, subject to special average life treatment if more than 25% of the Bond proceeds are used to acquire raw land.
- New Facility Construction
- Purchase of an Existing Facilities
- New Machinery and Equipment
  - ⇒ Used equipment is usually <u>NOT</u> able to be financed with bond proceeds, however, the rehabilitation expenses, i.e., new parts and labor associated with refurbishing a used piece of equipment, may be financed.
- Acquisition of the assets of an existing 501(c)(3) Corporation or for-profit company.
  - ⇒ Numerous deal specific requirements.
- Issuance Costs

3. *WHAT CAN BE FINANCED? (Cont.)*

⇒ Up to 2% of the bond proceeds may be used to pay costs of issuance.

⇒ Up to 3% of the bond proceeds may be used to pay the costs incurred with the transfer of risk (i.e. the Letter of Credit). This can include the first year letter of credit fee and up-front commitment fee.

4. *WHAT ARE THE DOLLAR LIMITATIONS?*

- Minimum Amount - Approx. $1.3 - $1.5 Million

  ⇒ At smaller dollar amounts, the costs savings associated with a qualified 501(c)(3) Bond may not be significant and may not be incentive enough for a company to go through the longer, more complex bond process.

- Maximum Amount - Less than $150 Million (other than hospital bonds)

  ⇒ A bond will not be treated as a tax-exempt bond if the aggregate face amount of the issue exceeds $150,000,000.

5. *WHAT ARE THE IRS IMPOSED REQUIREMENTS?*

- Non-Profit 501(c)(3) Corporation

  ⇒ The borrower must be an organization that has received a favorable letter from the Internal Revenue Service stating that the borrower is an organization described in Internal Revenue Code section 501(c)(3).

  ⇒ The borrower must maintain its exempt 501(c)(3) status as long as the bonds are outstanding.

- All of the net proceeds of qualified 501(c)(3) bonds must be used to finance property owned in its entirety by the exempt organization. At least 95% of the net proceeds of a bond issue must be used solely for one or more 501(c)(3) organizations and may not be used by those organizations in any unrelated trade or business.

TAX-EXEMPT
QUALIFIED 501(c)(3) BONDS

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- No more than 5% of the net bond proceeds may be used for any private business use. For this purpose, private business use would be use in a trade or business by any person other than an exempt organization.
  - ⇒ Management of a portion of a charity's bond-financed facility by a for-profit entity may result in private business use. The leasing of space for private functions (i.e. wedding receptions, business meetings, etc) that are unrelated to the exempt organizations charitable mission may result in private business use.
- No more than 2% of Bond Proceeds may be used to pay or offset issuance costs
- No More than 3% of Bond Proceeds may be used to fund expenditures incurred prior to inducement and/or Letter of Credit related expenses.

TAX-EXEMPT
QUALIFIED 501(c)(3) BONDS

OVERVIEW

- Real Estate and Machinery and Equipment must typically be depreciated on a straight line basis versus MACR's

- The weighted average term of the 501(c)(3) bond issue cannot exceed 120% of the average economic life of the project assets being financed.

- All Projects required that "official intent" be declared in order to finance pre-bond issuance costs and expenses.

  ⇒ Any costs incurred more than 60 days prior to the declaration of official intent may not qualify for reimbursement from bond proceeds.

  ⇒ Official intent, in the case of 501(c)(3) bonds may be declared by the 501(c)(3) organization for which the bonds are being issued, as well as by the issuer of the bonds (State or local EDC). Costs or expenses incurred after declaration of official intent has been received will qualify for reimbursement provided such Project has not been "placed in service" more than 18 months prior to the date of issuance of the Bonds and no expenditure to be reimbursed with proceeds of the Bonds was made more than three years prior to the date of issuance of the Bonds.

6. *WHAT IS THE PROCESS?*

- Declare Official Intent to finance Project through tax-exempt bonds

  ⇒ 501(c)(3) organization adopts board resolution declaring intent

  or

  ⇒ Complete and Submit Inducement/Official Intent Application

    - State Agency

    - Local Agency

      - Local Economic Development Corporations ("EDC's")

  ⇒ In all cases, an Inducement Resolution must be obtained prior to issuance

- Begin Approval process for a Bank Letter of Credit to support the Bond issue

- Begin required environmental study, appraisal, survey etc... as needed or required by the

TAX-EXEMPT
QUALIFIED 501(c)(3) BONDS

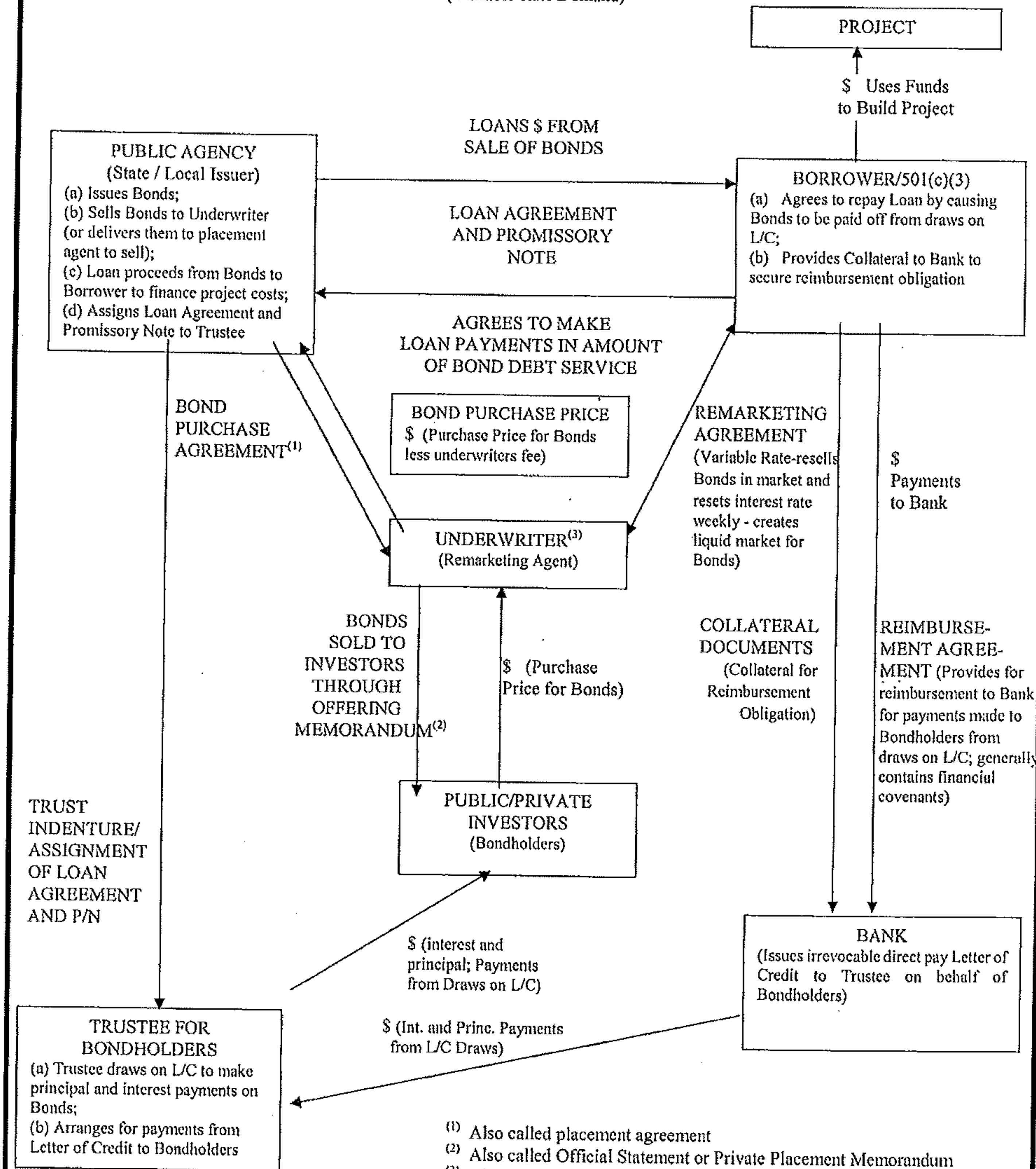
OVERVIEW

Bank

- Negotiate Bond and Bank documentation
- Obtain Bond Authorizing Resolution adopted by Issuer
- Sell Bonds / Close Transaction
  - ⇒ The time it takes to move through the process varies dramatically. The average time to fund a bond issue is typically 3 months, however, transactions have been done in as little as 1 to 2 months and as long as 3 years due to Project delays.

501(c)(3) BOND FINANCING STRUCTURE

(Variable Rate Demand)



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